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*Published in:*  
Work, Employment and Society

*DOI:*  
[10.1177/095001702762217443](https://doi.org/10.1177/095001702762217443)

**IMPORTANT NOTE:** You are advised to consult the publisher's version (publisher's PDF) if you wish to cite from it. Please check the document version below.

*Document Version*  
Publisher's PDF, also known as Version of record

*Publication date:*  
2002

[Link to publication in University of Groningen/UMCG research database](#)

*Citation for published version (APA):*

Remery, C., Doorne-Huiskes, A. V., & Schippers, J. (2002). Labour market flexibility in the Netherlands: looking for winners and losers. *Work, Employment and Society*, 16(3), 477.  
<https://doi.org/10.1177/095001702762217443>

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## Labour market flexibility in the Netherlands: looking for winners and losers

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### **ABSTRACT**

Almost two decades have passed since Dutch employers, unions and the government, in their struggle against unemployment, agreed on a policy to increase labour market flexibility. Over the years the share of flexible jobs in the Netherlands has gradually increased to around ten percent. According to some parties the introduction of more labour market flexibility would lead to more inequality and a division in the labour market between workers with permanent employment and an underclass of women, immigrant workers and poorly educated workers with temporary contracts. The Dutch government has always claimed that a special set of legal rules regarding labour market flexibility would prevent the development of such an underclass. In this article three questions are addressed: Who has a flexible labour contract and who is in permanent employment? What is the pattern of transition to permanent contracts? What are the consequences for wage rates for those on permanent or flexible contracts respectively? The answers to these questions are provided using panel data for the period 1986–96. The results show that labour market flexibility has been introduced into the Dutch labour market without detrimental consequences for specific groups of workers.

### **KEY WORDS:**

contracts / flexibility / labour market / labour mobility / segmented labour markets / transitions

## I Introduction

**D**uring the 1990s, the 'Dutch' model attracted a great deal of attention from both economists and policy-makers all over the world. The Dutch Prime Minister, Wim Kok, was given the opportunity to explain the successes of this model to the then President of the United States, Bill Clinton, while the model inspired both the British Prime Minister, Tony Blair, and his German counterpart, Gerhard Schröder, in the reshaping of their labour market policies. Even though it is difficult, from a historical perspective, to identify one specific moment or event that marks the introduction of the Dutch model, many researchers consider the Wassenaar Agreement of 1982 to be a landmark in the transformation of the Dutch economy, and more particularly, of the Dutch labour market (see e.g. Visser and Hemerijck, 1997). The Wassenaar Agreement was the result of consultations between Dutch employers and trade unions and was supported by the Dutch government. The objective of these consultations was to develop a policy to bring to a halt the rapid increase in unemployment that was threatening the Dutch economy at the time. The main terms of the agreement included moderate wage increases (with overall productivity growth as the main guideline), more room for part-time jobs in order to allow for a certain redistribution of jobs among workers and the unemployed, and more labour market flexibility. The government was expected to help increase this flexibility with measures such as liberalization of the rather strict rules on hiring and firing, the rigid laws on working hours and the opening hours of shops. Throughout the 1980s and 1990s several measures were taken to allow for more flexible labour contracts and gradually flexible workers became an accepted phenomenon in the Netherlands (see also Teulings and Hartog, 1998).

With more than a decade of experience, and bearing in mind the success of the Dutch consensus model, the question arises as to whether the increased labour market flexibility has resulted exclusively in winners, or whether the successes have left some workers, or groups of workers, empty-handed. This article tries to answer this question by using the successive waves of a survey carried out every two years by the Netherlands Organization of Strategic Labour Market Research (OSA). We had access to the data between 1986 and 1996 (six waves).

Labour market flexibility may take different forms (Atkinson, 1984). In this article the focus of attention will be on numerical flexibility in terms of flexible labour contracts. An important reason for this is that the government's efforts to increase labour market flexibility concentrated mainly on this form. Moreover, numerical flexibility can be observed and recorded easily. Introducing (internal) functional flexibility often takes quite some time. It is, therefore, more difficult to study. As far as flexibility of pay is concerned, this hardly seems to be an issue in the Netherlands. Trade union representatives have been successful in preventing the issue of more flexibility of basic wages from becoming an issue in negotiations with employers. One reason for this may be that since the conclusion of the Wassenaar Agreement these basic wages

have been moderated considerably anyway, so employers have not pressed for more flexibility in this respect. Instead, employers have concentrated on flexible fringe benefits, which are *supplementary* to the guaranteed basic wage.

Another form of flexibility is the share of part-time workers in the labour market. There is no doubt about the fact that the Netherlands is the part-time work champion of the European Union (Fagan et al., 1995; Plantenga, 1995). Part-time jobs in the Netherlands, however, do not necessarily have the characteristics typical of flexible jobs and can, contrary to the situation in several other EU countries and the United States, certainly not be considered as marginal labour (see also Meulders et al., 1994). All part-timers in the Netherlands have been entitled to the minimum hourly wage since 1993. Many part-time jobs are permanent jobs and their incumbents are protected against unfair dismissal in the same way as full-time workers. In other words, part-time work in the Netherlands is not the same as flex work, especially not from the individual part-time worker's point of view. It does, however, contribute greatly to the flexibility of the Dutch labour market.

The form of numerical flexibility studied in this article is that of flexible labour contracts. We address three questions. The first question looks at who has flexible labour contracts. Are some (groups of) workers more likely to be employed on a flexible basis than others? Next, we study to what extent working on a flexible contract is a permanent or a temporary phenomenon when we look at it from an individual's point of view. Is it true that 'once flexible' implies 'always flexible' or do workers move from flexible to permanent jobs? The last question addresses the consequences of flexible labour contracts in terms of wages. Do flexible workers receive lower wages than those with permanent contracts?

Section 2 gives a brief description of flexible labour contracts in the Netherlands. Next, section 3 gives a concise overview of a number of major theoretical insights with regard to labour market flexibility. At the end of this overview, hypotheses are put forward dealing with the question of whether flexibility has created 'winners' and/or 'losers'. After a description of the data in section 4, sections 5 and 6 give the results of the empirical analyses with respect to the probability of flexible labour contracts, transition rates and wages. The main conclusions are summarized and policy issues addressed in the final section.

## 2 Flexible labour contracts in the Netherlands

Dutch census data define flexible labour contracts as contracts restricted in time – that is less than one year – and/or as contracts without a fixed number of working hours. Employees with short-term contracts, on-call contracts, substitute workers and temporary workers can, therefore, all be defined as flexible workers. The share of flexible workers in the Netherlands according to this definition was 10.3 percent in 1998. This share had been increasing until the

middle of the 1990s (in 1992 it was 7.6 %) and has remained stable since then. Female workers have flexible labour contracts more often than male workers: 14.5 percent for women and 7.5 percent for men in 1998. Other relevant predictors for flexible contracts prove to be age and level of education (Fouarge et al., 1999). Older workers have permanent jobs more often than younger workers. The relationship between level of education and the probability of being permanently employed is less linear. Both workers with little education and workers who have undergone higher education have flexible contracts more often than workers with an intermediate level of education. Ethnicity is relevant as well. Immigrants from Turkey and Morocco work in flexible jobs more often than indigenous workers (SCP, 1999). In addition, working in part-time jobs also increases the probability of having a flexible contract (CBS, 1999).

The catering industry is the most flexible sector of the Dutch economy. Nearly 33 percent of the female employees and almost 26 percent of the male employees in this industry have a flexible contract. The lowest percentages are found in public administration. Only 3.2 percent of the male workers in this sector have a flexible job; for female workers the percentage is higher: 7.6 percent of female employees in public administration have flexible contracts (CBS, 1999).

### **3 Theoretical notions with respect to the flexibility of labour**

From a theoretical perspective, economics, sociology and managerial theory have brought forward different hypotheses with respect to the range and scope of flexibility. The main ideas concerning the question of which tasks, processes and activities in a company are eligible for 'flexibilization', which workers are offered flexible contracts and what consequences may follow in terms of their labour market positions and wages are discussed in this section. These theoretical insights are subsequently used as a framework for the empirical analyses.

#### **Flexibility and the demand side of the labour market**

Flexibility on the demand side of the labour market basically refers to the question of for what type of jobs and tasks, for what occupations and by what industries are flexible jobs offered. At a theoretical level this question can be answered easily: flexibility becomes an issue when activities involve unstable and fluctuating conditions of demand by consumers or intermediary companies (in the case of goods that are not distributed to consumers directly). Furthermore, it must not be possible to produce goods on a large scale in order to stock them. As a consequence, the service industry's demand for flexible labour is substantially greater than that of manufacturing. The agricultural sector, where nature has a big hand in the fluctuation in the supply of work, has always had a relatively large share of flexible labour, too.

When it comes to numerical flexibility, there seem to be strong links to the position of a job in the organization. For strategic and so-called core-jobs and activities, most organizations prefer a regular complement of labour. Managerial and executive jobs are usually included in this category. Positions which involve dealing with confidential or strategic organization-related information are also usually permanently staffed. Organizations usually opt for a mixture of permanent and flexible staff that ensures that the continuity of the organization is sufficiently guaranteed. The permanent staff can be considered as the backbone of the organization. In many cases these members of staff are responsible for the work climate in the organization, as well as the organization's external image and reputation (Pinfield, 1995).

The extent to which it is possible and desirable to call in flexible workers also depends on the degree of specialization of the activities involved (Black and Lynch, 1996). If specialized knowledge and skills are not required and training periods are short, employing additional workers on a short-term basis, e.g. from a temporary employment agency, does not constitute a problem. Besides, it is important that the potential damage risk of a job is limited: if the damage following a mistake by an inexperienced worker could be considerable, an organization will prefer to have the task performed by an experienced member of staff, even though this may involve some delay, instead of hiring an inexperienced flexible worker.

As has been shown in the past decade, there is a strong connection between numerical flexibility and the business cycle. When the economy is in an upswing and economic activity is increasing, organizations hesitate to employ new staff on a permanent basis immediately. They may initially opt for temporary workers and short-term contracts instead. Only if the increased demand persists, will organizations expand their permanent staff. When the economy is declining and activity rates drop, flexible workers will be the first to face the loss of their jobs. Only if reduced activity rates are followed by a real and lasting economic recession, do organizations have to settle for the inevitable and make permanent staff redundant too. The reluctance to dismiss this category of personnel can be explained by the relatively high cost of hiring and firing and the investments made with respect to training (Polachek and Siebert, 1993).

The argument that temporary employment precedes permanent employment can also be used at the industry level. New, growing industries offer flexible jobs more often than old industries that are in decline. The staff of growing industries is still expanding and ideas regarding who is, and who is not, going to be part of the core of the organization have not yet fully developed. In declining industries the staff will be reduced to the very minimum and there will be little demand for flexible workers.

### Flexibility and the supply side of the labour market

Decision making with respect to labour supply cannot be separated from many other 'personal' decisions. Many of these decisions are taken in the framework

of a household or family, such as the decision regarding where to find a place to live, whether to take out a mortgage, or to start a relationship with someone, etc. (see Mertens et al., 1998). In many cases one decision affects other decisions too, commitments have been made and must be honoured, and sooner or later the decision regarding the number of hours supplied in the labour market is no longer a free choice. Given the existing obligations and commitments, many workers prefer permanent and stable employment (Ester and Vinken, 2001). Such labour contracts not only create security with respect to current rights and obligations, they also offer a clear perspective of the future (for instance with respect to retirement pensions). This is why workers who want to transfer from one job to another also prefer the transfer from one long-term labour contract to another.

Does this imply that flexible jobs are only suitable for workers without obligations or for risk takers, who set little store on security? When we look, for instance, at groups such as students, who have to pay their tuition fees and who turn their backs on the labour market as soon as they have earned enough money, we see a group that fits into this category quite well. To a lesser extent this also holds for newcomers in the labour market. In many cases they are still looking around and find it convenient to explore the labour market and their own opportunities through a series of temporary jobs, without feeling restricted to or tempted by permanent jobs.

Another category includes those individuals who are not deliberately taking risks but who are willing to take a chance (see also Sennett, 1998). This category includes, for instance, highly-educated professionals who can be hired for specialist jobs on a temporary basis, and who charge high fees allowing them, for example, to take a rest on a luxurious holiday afterwards. After some time a new client with a new, rewarding assignment will turn up and the wheel starts spinning again.

### **Flexibility and the match between supply and demand**

Eventually, it is the match between supply and demand in the labour market which will determine what workers will take on flexible jobs and what jobs will be done by flexible workers. Different types of market forces affect the match between supply and demand in the labour market. Economic and sociological theorists have advanced hypotheses with respect to this match. Earlier research (Jaspers et al., 1989) proved that there are differences in the potential of workers to realize their preferences in the labour market. Men have better opportunities than women, and indigenous workers are in a better position to do so than immigrant workers. A similar hypothesis can be formulated with respect to more highly educated workers and/or more experienced workers compared to less highly educated and/or less experienced workers. Becker's theory of discrimination (1957) indicates that there is 'a taste for discrimination' which explains employers' preferential treatment of one group compared with another. The theory on 'statistical discrimination' (Phelps, 1972) refers to the

alleged differences in productivity among workers. Thurow (1975), in his 'job competition' theory, emphasized the importance of the 'trainability' of workers and the relevance of queues for the limited 'opening slots' in an organization, for instance, vacancies which are filled by way of external recruitment. All these theories have in common that they explain why some workers have better chances of filling a certain vacancy than others.

Taking into account what has been said before and what we know from the literature, for permanent employment employers can be expected to select: men, experienced workers, and workers in whom they have made considerable investments.

When trying to fill vacancies for flexible jobs, employers are inclined to broaden their search to: women, minority and foreign workers, and workers with little human capital.

In industries or labour market segments where labour is scarce, workers will find it easier to insist on long-term labour contracts than in segments where employment is scarce.

The consequences for a worker's career and the development of his or her income are basically the same. Just as permanent employment is often a necessary condition for participating in company-specific training, it is also the key to other terms of employment, such as fringe benefits, participation in a pension scheme, etc. These terms of employment almost always operate as an instrument perpetuating the bond between the worker and the employer. In other words, such arrangements are exclusively intended for workers with whom the employer indeed wants this kind of bond.

## 4 Data and analyses

### Data

Data from the Netherlands' Organization of Strategic Labour Market Research (OSA) Labour Supply Panel were used for the analyses. The panel is a face-to-face biannual panel survey among a representative sample of about 2000 households. These are sampled from the total number of households in the Netherlands. Each member of these households between the ages of 16 and 65 years, who is not in daytime education, is interviewed. The questions are directed at the employment situation of the respondents and their labour market behaviour.

Since it is a panel survey (which started in 1985), subsequent surveys have taken place (every two years, starting in 1986). Each new wave of the sample is supplemented with new households due to dropout. The panel nature of the survey makes it particularly useful for studying transition rates between different forms of contracts and the consequences of flexible labour contracts over time.

Unfortunately, dropouts from the panel reduce the possibility of following the whole group over a long period. Between two successive waves of the panel,



the percentage of respondents present in both waves varies from 65 to 70 (Kunnen et al., 1997). Moreover, the dropout may be selective: employees with flexible contracts may drop out more often than employees in permanent employment. In spite of these limitations, the OSA panel is the most suitable data set available in the Netherlands for our purposes.

We analysed data from 1986 until 1996 (six waves). This means we were able to look into developments regarding flexible contracts over a ten-year period. The sample is representative for the Dutch population with respect to age, gender and education. It is not representative with respect to labour market position: self-employed and unemployed persons are under represented. However, since our analyses are directed exclusively at employees, this does not seem to be a problem.

### Operationalizations and analyses

Firstly, we wanted to analyse the probability of the occurrence of permanent versus flexible labour contracts. Since the dependent variable is dichotomous (whether or not flexible contracts are involved) logistic regression analysis is the most appropriate technique. Employees are divided into two groups: one group with permanent employment and one group with flexible contracts. This latter group includes employees with fixed-term contracts, temporary workers and on-call workers.

Based on the theory and the availability of data, the following independent variables are used in the analysis: gender, ethnicity,<sup>1</sup> age, education, labour market position two years earlier, working in a management position, training period for the job, whether the company offers education or not, and the industry the organization belongs to. The labour market position two years earlier is an indicator of the experience of the employees. Besides, employers may use this information to decide on the type of contract to offer to an employee. We used dummy variables: unemployed or employed two years earlier. The reference category is the group which did not participate in the labour market (neither employed, nor looking for a job). With respect to the industry we distinguish between the main sectors used in statistics for the Netherlands.

Whether a company offers education is an indicator of how much employers are willing to invest in their employees. Employers will expect returns from these investments. By offering permanent employment, they can exert more influence on these returns. Another indicator is the training period for the job; the longer it is, the more an employer invests in an employee and the sooner he will offer a long-term labour contract. As each separate wave of the panel contains only a limited number of immigrant workers we pooled the different waves of our data. The use of this pooled data set also gave us the opportunity to include two additional variables: the unemployment rate for the year of each wave, indicating the tightness of the labour market and the degree to which workers could 'demand' a permanent contract or not, and the length of the period elapsed since the Wassenaar Agreement of 1982, indicating the extent to

which the Dutch economy was getting 'used to' different forms of labour market flexibility.

The next step in our analyses tries to answer the question of which categories of workers are more likely to gain permanent employment than others after having been on a flexible contract. To analyse these probabilities we estimated a logistic regression, using the same explanatory variables as in our previous analysis. For this estimation we selected workers who were on a flexible contract in one wave of the panel *and* worked on a flexible contract again or had gained a permanent contract in the next wave. Once again, due to the small sample size, we pooled these selected workers from the different waves for the analyses.

The impact of flexible labour contracts on income was examined by way of analysing the wage rate of employees. For 1996, wage rates were estimated using OLS regression analysis. We used the gross wage rate as a dependent variable. A log-linear transformation was applied to the wage rate. Consequently by approximation the coefficients can be interpreted as changes in terms of percentage of wages due to a unit change in the independent variable. Independent variables are based on the theoretical model as well as on the availability of data. The variables are: a permanent contract (1 = yes), two dummy variables for working part-time; less than 20 hours per week (1 = yes), and working 20 to 32 hours per week (1 = yes), age, level of education, industry, and size of organization for which two dummy variables were used (50–200 employees; more than 200 employees).

## 5 Who has a flexible labour contract?

Table 1 contains the results of the logistic regression explaining the probability of having a long-term labour contract versus a flexible contract during the period 1986–96. Table 1 shows that the labour market position two years earlier is the most important factor in explaining the probability of having a permanent contract. Employees who were employed two years earlier have a permanent contract more often. The significance of having been employed before is an indicator that employers will try to gain the commitment of experienced employees and/or that experienced employees will demand a long-term contract when they are looking for another job. The positive effects of having a job that requires a three-month, or longer, training period and having a managerial job point in the same direction: these are the core workers that are the backbone of the company. The opposite holds for jobs that require hardly any training (less than two days): workers on these jobs are easily dispensable.

Employees working in organizations offering training and educational facilities have permanent contracts more often than employees working in organizations that do not offer such facilities. This once again confirms the idea presented in the theoretical section of this article that the more company-specific human capital is involved in production, the bigger the incentive for employers

to use permanent contracts as an instrument to safeguard their investments in worker training.

Male employees have a long-term labour contract more often than female employees. The effect of being born outside the Netherlands on having a permanent job is (just) not significant. However, the tendency of the effect is as expected: persons born in the Netherlands have a greater chance of having a permanent contract. The effects of age conform with our theoretical expectations and show quite a neat pattern: the probability of winning a permanent job increases gradually with age, reaching its maximum for workers over 45 years of age.

The effects of educational level on having a permanent contract are more puzzling; the only significant – negative – effect found was for workers with a university degree: they have a significantly lower chance of holding a permanent job. One possible explanation refers to the argument discussed in our theoretical section, that workers with university training do not ‘need’ or ‘want’ permanent jobs: they ‘hop’ from one financially attractive opportunity to another. For another possible explanation we may point to the economic recession during the late 1980s and early 1990s. This hit the sectors where workers with university training are over represented relatively hard. Due to cuts in budgets, government agencies and educational institutions, particularly universities, hardly employed any permanent staff for several years. To some extent this picture is reflected in the effects of the sector in which the employee works, though no significant effect was found in any sector.

In addition to what was said about cuts in the government budget, in a broader sense it may be argued that our basic hypotheses with respect to the effect of working in a specific branch or sector, are being undermined by business cycle effects. After severe budget cuts the number of civil servants declined considerably during the 1980s. As a consequence, increasing public sector activity in the 1990s forced all kinds of government agencies to hire a substantial number of temporary workers. A similar argument may be applied to the banking industry. After a series of mergers during the 1980s and large scale redundancies among permanent workers, organizations had become so ‘lean’ that every small increase in production had to be met by an increase in temporary employees.

Both variables included in the analysis to take account of the historical dimension of the issue of labour market flexibility show what is to be expected: that there is an inverse relationship between the unemployment rate and the probability of having a permanent contract. This is in line with the theoretical notion that if there is excess supply in the labour market, workers have to lower their demands and settle for a temporary contract sooner, while in case of excess demand, employers use permanent contracts as a means of competing for scarce workers. The relatively small, but significant effect of the length of the period that has elapsed since 1982 (the year of the Wassenaar Agreement on – among other things – increasing labour market flexibility in the Netherlands) shows that flexible labour contracts gained ground over time. The social

**Table 1** Results of logistic regression analyses to explain the probability of having a permanent contract versus a temporary contract; pooled data for the Netherlands, 1986–96

<i>Explanatory variables</i>	<i>Coefficients</i>	<i>(t-values)</i>
Gender (1 = male)	0.44**	5.55
Ethnicity <sup>b</sup> (1 = reported to be born outside the Netherlands)	-0.54	-1.76
<i>Age</i>		
■ < 25 years	-0.59**	-4.62
■ 25–35 years	-0.41**	-3.57
■ 35–45 years	-0.40**	-3.41
■ 45–55 years <sup>a</sup>		
■ > 55 years	-0.06	-0.29
<i>Education</i>		
■ Primary school	0.22	1.63
■ Lower general and vocational training	0.14	1.65
■ Intermediate general and vocational training <sup>a</sup>		
■ Higher vocational training	-0.12	-0.98
■ University	-0.73**	-3.87
■ Unknown	0.62	1.70
Unemployed two years before <sup>b</sup>	-0.29*	-2.11
Employed two years before <sup>b</sup>	1.68**	18.52
Managerial position <sup>b</sup>	0.32**	3.87
<i>Training period of job</i>		
■ < 2 days	-0.69**	-7.77
■ 3 days–3 months <sup>a</sup>		
■ > 3 months	0.87**	9.97
Company offers education <sup>b</sup>	0.30**	4.13
<i>Sector</i>		
■ Manufacturing <sup>a</sup>		
■ Construction	-0.25	-1.46
■ Wholesale, retail trade and hotels and restaurants	0.02	0.19
■ Transport, storage and communication	0.14	0.76
■ Financial intermediation, real estate, renting and business activities	-0.07	-0.53
■ Public administration	-0.20	-1.24
■ Education	-0.14	-0.83
■ Health and social work; other community services	0.03	0.24
Number of years since Wassenaar agreement	-0.05**	-4.39
Unemployment rate	-0.15**	-3.91
Constant	2.49**	6.73
-2 Log Likelihood	6255.453	
N	15,385	

\* significant at  $p < 0.05$ ; \*\* significant at  $p < 0.01$ <sup>a</sup> reference<sup>b</sup> dummy-variable (1 if characteristic applies); for 1986 the period for the variables unemployed and employed is one instead of two years before

Source: Calculations based on OSA Labour supply panel 1986–96

partners (the trade unions and employers' organizations) may conclude from this analysis that their mutual agreement, supported by the government, has indeed been successful in making the Dutch labour market more flexible. Others might argue that market forces that urged social partners to agree on more labour market flexibility remained active over the course of time. No matter what interpretation prevails, the outcomes of the analysis clearly show an increasing trend towards more flexible labour contracts over time.

6 Consequences of flexible labour contracts

Transition rates

Does the fact that individuals have flexible contracts imply that they will go on working in flexible contracts? Do they eventually get permanent positions or do they become unemployed? These questions can be answered by way of calculating transition rates for labour market positions. Table 2 shows the two-yearly transition rates from flexible contracts to other positions inside or outside the labour market for the period 1986–96. On average, the probability of gaining a permanent contract after having been on a temporary one decreases over time from about sixty percent to somewhat over 40, while the probability of staying on a temporary contract increases in a similar way. The change in the percentage of former temporary workers making the transition into self-employment may reflect the state of the business cycle and the opportunities open to individuals for gaining access to new markets. It should be noted, however, that the numbers of workers with contracts other than permanent ones are relatively small. So, the percentages must be interpreted with some caution.

The next question we try to answer is whether there are some groups of workers who stand a better chance than others of making the transition from a temporary to a permanent contract. Those opposed to the trend towards more labour market flexibility have been warning against increasing dichotomy among workers. In their view 'once flexible' would result in 'always flexible', with flexible workers constituting a new kind of underclass as described by dual

Table 2 Two-yearly transition rates from flexible contracts; data for the Netherlands, 1986–96

Temporary contract in:	Position after two years					Total
	Permanent contract	Temporary contract	Self-employed	Un-employed	Not participating	
1986	48.3	25.3	4.4	9.9	12.1	100
1988	60.7	22.2	2.6	7.7	6.8	100
1990	54.6	32.4	2.8	5.6	4.6	100
1992	49.3	31.6	2.9	8.1	8.1	100
1994	43.2	32.8	3.2	11.2	9.6	100

Source: Calculations based on OSA Labour supply panel 1986–96

labour market theory (see Cain, 1976). The Dutch government, however, has always claimed that legal measures, especially the Law on Flexibility and Security, accompanying the introduction of more labour market flexibility would prevent such a dichotomy among workers. Logistic regression analysis explaining the probability of the transition from a temporary contract to a permanent one on pooled data for the period 1986–96 shows some remarkable results (see table 3). None of the personal characteristics, or the characteristics of the job one holds, has any significant influence on this probability. Even though one could argue that the number of cases for this analysis is perhaps too small ( $N = 481$ ) for any definite conclusions, the outcomes lend more support to the government's claim of equal chances for all workers than to the opponents' claim that the trend towards more flexibility results in a labour market dichotomy. If there had been a strong and irrefutable tendency to deny female or immigrant workers the transition to a permanent contract, some of that tendency would have been reflected in our analysis.

How do we then account for the difference between the outcomes of this transition analysis and the analysis, presented earlier, of the probability of having a permanent versus a temporary job? If there is no difference in the flow from temporary to permanent contracts between the different categories of workers, whereas some categories of workers do indeed have a higher probability of having a permanent contract, logically there is no other possibility than to reduce these different probabilities to differences between workers entering the labour market. There is some case-based evidence that women entering the labour market hold more flexible jobs than male starters.<sup>2</sup> We do know, however, from Phelps' theory on statistical discrimination (Phelps, 1972), that offering less favourable terms of employment to workers is an often used strategy if the employer is not sure about workers' future productivity. Offering temporary contracts to women, immigrant workers and young workers entering the labour market is, then, a way of reducing the risk of selecting the 'wrong' worker for permanent employment (Schippers and Siegers, 1994). Only after they have proven themselves to be devoted and suitable workers do they gain access to permanent employment.

### Consequences of flexible jobs for wages

The consequences of flexible jobs on the worker's income have been examined by analysing the impact of flexible contracts on wages. Having a permanent labour contract appears to be more profitable than having a flexible contract. However, the average gross wages of employees with a flexible contract have increased more than the average wages of employees with permanent contracts. In 1988, employees with flexible contracts earned less than three quarters of the amount that permanent employees earned; in 1996 this figure was 80.8 percent. These developments suggest that the introduction of legal arrangements, which were enforced during the intervening years to protect the labour market position of flexible workers, were effective.

**Table 3** Results of logistic regression analyses to explain the probability of the transition from a temporary contract into a permanent contract; pooled data for the Netherlands, 1986–96

<i>Explanatory variables</i>	<i>Coefficients</i>	<i>(t-values)</i>
Gender (1 = male)	0.19	0.80
Ethnicity <sup>b</sup> (1 = reported to be born outside the Netherlands)	0.24	0.27
Age		
■ < 25 years	0.47	1.30
■ 25–35 years	0.06	0.19
■ 35–45 years	0.45	1.39
■ 45–55 years <sup>a</sup>		
■ > 55 years	–0.55	–0.88
Education		
■ Primary school	0.23	0.57
■ Lower general and vocational training	0.12	0.49
■ Intermediate general and vocational training <sup>a</sup>		
■ Higher vocational training	0.52	1.43
■ University	–0.34	–0.75
■ Unknown	0.69	0.59
Unemployed two years before <sup>b,c</sup>	–0.02	–0.04
Employed two years before <sup>b,c</sup>	0.40	1.59
Managerial position <sup>b</sup>	–0.16	–0.45
Training period of job		
■ < 2 days	–0.04	–0.18
■ 3 days–3 months <sup>a</sup>		
■ > 3 months	0.11	0.42
Company offers education <sup>b</sup>	–0.09	–0.41
Sector		
■ Manufacturing <sup>a</sup>		
■ Construction	–0.33	–0.69
■ Wholesale, retail trade and hotels and restaurants	0.01	0.03
■ Transport, storage and communication	0.03	0.06
■ Financial intermediation, real estate, renting and business activities	–0.36	–0.91
■ Public administration	–0.15	–0.29
■ Education	–0.19	–0.40
■ Health and social work; other community services	–0.14	–0.36
Number of years since Wassenaar agreement	–0.07	–1.44
Unemployment rate	0.01	0.11
Constant	0.62	0.63
–2 Log Likelihood	599.409	
N	481	

\* significant at  $p < 0.05$ ; \*\* significant at  $p < 0.01$ <sup>a</sup> reference<sup>b</sup> dummy-variable (1 if characteristic applies); for 1986 the period for the variables unemployed and employed is one instead of two years before<sup>c</sup> If transitions relate to changes between  $t_0$  and  $t_1$ , this variable refers to  $t_{-1}$ 

Source: Calculations based on OSA Labour supply panel 1986–96

In order to establish the relative impact of working on a permanent or flexible contract, respectively, compared to the impact of other variables explaining the wage rate, we performed some additional analyses. Since wages in the Netherlands still differ considerably between men and women, we did these estimations separately for women and for men. The results<sup>3</sup> indicate that having a flexible job is financially unfavourable for men as well as for women. In 1996 men in flexible jobs earned almost 14 percent less than men with permanent labour contracts. The gross wage rate for women in flexible jobs was about 12 percent less than for women with permanent employment. The gross wage rate for part-time jobs was no less than that for full-time jobs. This was the case for both male and female employees. This finding underlines the point made earlier that in the Netherlands working in a part-time job is quite different from having a temporary or some other form of flexible contract.

## 7 Conclusions and discussion

The numbers of employees in flexible labour relationships are slowly increasing in the Netherlands. Our analysis revealed two important factors for predicting whether people will be employed in flexible or permanent labour relationships: earlier labour market position and the length of training period of the job in which people are employed. Having a job earlier gives a better chance of getting a permanent job now, than having no job or being unemployed. So, labour market experience matters. The length of the training period of a job also refers to the importance of human capital: workers with a great deal of company-specific, human capital constitute the core of an organization's staff. They are offered permanent jobs, including all the accompanying benefits, both material and immaterial.

Men have permanent contracts significantly more often than women. However, once in the labour market women and men on temporary contracts stand equal chances of winning permanent contracts. On the whole, it turns out that there are many workers with flexible contracts, relatively speaking, who obtain permanent contracts within two years. The likelihood of realizing such a transition has, however, been deteriorating slightly during the last decade. Still, the majority of working people are employed in permanent contracts and our analyses do not show any evidence of an emerging dichotomy between temporary and permanent workers in the labour market. So, referring to the title of this article: labour market flexibility has been introduced in the Netherlands without generating real 'losers'.

This does not imply, however, that there are no 'losses' to be reported: workers with permanent contracts do – other things being equal – earn more than flexible workers, though the difference seems to have been diminishing during the last decade. This means that flexible jobs do not offer financial compensations for their disadvantages. On the contrary, besides insecurity, which



can be considered as a cost, being employed in flexible relationships generates other costs as well in terms of lower income.

More and more, Dutch government policies and collective agreements between unions and employers' organizations aim at mitigating the negative consequences of flexible contracts. More legal protection for flexible workers has been realized by recent legislation. The aim of Dutch labour market policy, however, is not just to provide protection. There is also a reverse trend in the liberalization of dismissal rules. In general, the Dutch government and Dutch employers are trying to make the labour market more flexible. Does this mean that the heyday of permanent contracts is over in the Netherlands and that soon nearly all workers will be employed in flexible contracts? The answer appears to be a simple no. Workers still look for security in their jobs and predictability in their lives, and this will not change overnight. In addition to this, the fact that we are experiencing a booming economy also helps. In many sectors of the Dutch labour market, there is a shortage of qualified workers.<sup>4</sup> In such a situation, workers have a strong bargaining position with regard to employment conditions. Employers try hard to keep qualified workers on board.

This underlines the fact that the balanced way in which flexibility was introduced into the Dutch labour market has been supported by rather favourable circumstances: continuous growth of the economy and increasing labour market shortages. The test is, of course, how flexible workers will fare in the event of adverse economic conditions. Moreover, the inflow of more (illegal) immigrant workers, such as those working in bulb cultivation or in the catering industry, constitutes a flexible labour market segment that is not included in official statistics. Newspaper stories and case-study research, however, tell us that working conditions in this segment are poor and that much of the protection of the official flexible labour market segment is lacking here. This means that continuous attention is required regarding the development of labour market flexibility, both by policy makers and by researchers.

## Acknowledgements

The authors wish to thank Jan Dirk Vlasblom for his methodological assistance and two anonymous referees for their helpful comments on a previous version of this article.

## Notes

- 1 In the survey, respondents were asked in which country they were born. They could choose from a limited number of categories: the Netherlands, Surinam, the Netherlands Antilles, Turkey, Morocco or elsewhere. Hardly any respondents chose the last category. Ethnicity is included in the analyses as a dummy variable: 1 = born outside the Netherlands.

- 2 Unfortunately there are no systematic data available on workers' labour market positions and types of contracts in their first job. However, based on our data we were able to select those respondents 'currently' with a job but who were either unemployed, a student or in the army two years earlier. The percentage of men with a permanent contract in this group proved to be higher than that of women (67 versus 55%).
- 3 The analyses are available from the authors upon request. Due to differences in the way wage rates were measured between the waves of the panel, it was not possible to use pooled data for this analysis.
- 4 Also after September 11, 2001 many organizations still report serious labour market shortages. Many employers expect these shortages to last throughout the next few years.

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**Date accepted** March 2002

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